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June 21, 2000

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Ex Parte Submission**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12th St., S.W.  
Washington, D.C. 20554

ORIGINAL

Re: Application by SBC Communications, Inc. et al. Pursuant to Section 271  
of the Telecommunications Act of 1996 To Provide In-Region,  
InterLATA Services in Texas, CC Docket No. 00-65

Dear Ms. Salas:

The purpose of this letter is to bring to the Commission's attention two recent developments that are relevant to AT&T's demonstration that SWBT's intellectual property restrictions preclude any finding that SWBT has fully implemented the competitive checklist.

The first development is the filing of SWBT's direct testimony in its arbitration proceeding with AT&T before the TPUC regarding SWBT's duty to implement the Commission's recent intellectual property order.<sup>1</sup> Significantly, in that testimony, as well as in the contract language SWBT has proposed (copies of which are attached), SWBT continues to maintain that its only duty under the Commission's order is to "facilitate" AT&T's acquisition of any amendments to SWBT's intellectual property licenses that may be necessary to protect AT&T when it uses SWBT's elements, and that the ultimate responsibility to secure such licenses rests with AT&T. See Southwestern Bell Telephone Company's Direct Testimony of Donald Palmer, *Petition of Southwestern Bell Telephone Company for Arbitration with AT&T Communications of Texas, L.P. et al.*, Docket No. 22315 (Public Utility Commission of Texas, filed June 15, 2000), at 4, 9. Consistent with that position, SWBT is refusing to agree to indemnify AT&T from intellectual property liabilities that AT&T may incur when using

<sup>1</sup> Memorandum Opinion and Order, *Petition of MCI for Declaratory Ruling That New Entrants Need Not Obtain Separate Licenses or Right-to-use Agreements Before Purchasing Unbundled Elements*, CC Docket No. 96-98, CCB Pol. 97-4, FCC 00-139 (rel. Apr. 27, 2000).

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Ms. Magalie Roman Salas

June 21, 2000

Page 2

SBWT's network elements, even where AT&T will be using the elements in the same manner as SWBT. *Id.* at 4-5 & Ex. A, §§ 7.3.4-5. At the same time, SWBT maintains that AT&T is required to indemnify SWBT from any liabilities arising from such uses. *Id.* at 9-10 & Ex. A, § 7.3.6. Clearly, SWBT remains unwilling to comply with its duty to provide access to its network elements on terms and conditions that are nondiscriminatory.

The second development is SWBT's recently filed Motion to Alter or Amend Judgment in the section 252 action before the United States District Court for the Western District of Oklahoma. *See* Southwestern Bell Telephone Company's Motion to Alter or Amend Judgment Or, In the Alternative, Motion for A New Trial and Brief in Support, *Southwestern Bell Telephone Company v. Apple*, Case No. CIV-97-1507-A (attached). In that filing, SWBT clearly expressed the position that it has no legal obligation to provide access to any network elements that may be covered by restrictive intellectual property provisions until after it has completed the process of negotiating any necessary amendments to its intellectual property agreements with third party vendors. *Id.* at 1, 7-8. SWBT's filing thus makes clear that it is SWBT's position that AT&T has no legal right today to obtain access to such network elements, and that AT&T will not have such a right until the indefinite point in the future when SWBT concludes its negotiations with its vendors. SWBT's filing thus confirms that SWBT cannot be found to have fully implemented the competitive checklist on this record.

An original and one copy of this letter are being submitted pursuant to Section 1.1206(b) of the Commission's rules. Please insert one copy into the public record of CC-Docket No. 00-65.

Respectfully submitted,



Daniel Meron



**SWB**  
**June 15, 2000**

## TABLE OF CONTENTS

**DOCKET NO. 22315**

**PETITION OF SOUTHWESTERN  
BELL TELEPHONE COMPANY FOR  
ARBITRATION WITH AT&T  
COMMUNICATIONS OF TEXAS, L.P.,  
TCG DALLAS, AND TELEPORT  
COMMUNICATIONS, INC.  
PURSUANT TO SECTION  
252(B)(1) OF THE FEDERAL  
TELECOMMUNICATIONS ACT OF 1996**

**SOUTHWESTERN BELL TELEPHONE COMPANY'S  
DIRECT TESTIMONY OF DONALD PALMER**

	<u>Page(s)</u>
SWBT's Direct Testimony of Donald Palmer .....	2
I. Introduction .....	2
II. Work Experience and Educational Background.....	2
III. Purpose of Testimony .....	3
IV. Issue 5 – Warranty Against Infringement Claims .....	3
V. Issue 6 – Intellectual Property Rights and Protections .....	7
VI. Issue 7 – Conveyance of Intellectual Property Licenses and Indemnification Obligations.....	8
VII. Issue 8 – Incorporation of FCC Intellectual Property Order Into The Parties' Interconnection Agreement.....	10
Exhibit A .....	11

Original + 10

**DOCKET NO. 22315**

**SOUTHWESTERN BELL TELEPHONE COMPANY  
DIRECT TESTIMONY OF DONALD PALMER**

**I.  
INTRODUCTION**

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. My name is Donald Palmer. My title is Senior Manager, Procurement Regulatory  
3 and Legal Support. I am employed by SBC Services, Inc., a wholly owned  
4 subsidiary of SBC Communications Inc. My business address is 2600 Camino  
5 Ramon, Room 2E300X, San Ramon, California, 94583.

**II.  
WORK EXPERIENCE AND EDUCATIONAL BACKGROUND**

6 **Q. CAN YOU PLEASE SUMMARIZE YOUR WORK EXPERIENCE AND**  
7 **EDUCATIONAL BACKGROUND?**

8 A. I have been employed by SBC Services, Inc. since January 1, 2000, prior to  
9 which I was employed by SBC Operations, Inc. from July 1997 through  
10 December 1998 and performed the same duties that I perform today which are  
11 outlined below.

12 From October 1995 to July 1997, I was a Senior Contract Manager with Pacific  
13 Bell's Procurement organization with responsibility for negotiating a wide variety  
14 of professional services and custom software development contracts on behalf of  
15 Pacific Bell.

16 Prior to joining Pacific Bell in 1995, my work experience consisted of nearly 20  
17 years in the procurement field in various management positions with direct  
18 responsibility for the negotiation of contracts covering a wide array of products  
19 and services in a high-technology environment.

20 I am currently enrolled in a Master of Business Administration program at the  
21 University of Phoenix, Pleasanton, California (to be complete July 2000). I hold  
22 a Certificate in Contract Management from the University of California, Berkeley

(1997) and also have a JD Degree from John F. Kennedy University, School of Law, Walnut Creek, California (1994). I have been an active member of the California Bar since 1995. I also have a Bachelors Degree in Business Administration from John F. Kennedy University (1988).

**Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR MANAGER, PROCUREMENT REGULATORY AND LEGAL SUPPORT?**

A. My primary responsibility is to represent the SBC Procurement organization in support of SBC's (and its affiliated telephone companies) Regulatory and Legal departments on all matters involving the Procurement organization. This typically involves coordinating responses to regulatory and legal requests for information or documents in the possession of Procurement employees as well as providing expert testimony or witness support relating to Procurement matters.

**III.  
PURPOSE OF TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to support SWBT's position relating to the intellectual property issues referred to in the parties' Joint Decision Point List - Unresolved Issues, General Terms and Conditions. The specific DPL issues are those that are numbered 5, 6, 7, and 8, each of which are separately discussed below.

**IV.  
ISSUE 5 – WARRANTY AGAINST INFRINGEMENT CLAIMS**

**Q. WHAT IS THE ISSUE REGARDING WARRANTY AGAINST INFRINGEMENT CLAIMS?**

A. The issue regarding warranty against infringement claims is whether SWBT should be required to warrant that all services, facilities, equipment, and software that SWBT provides to AT&T under its interconnection agreement shall be free from all possible third-party intellectual property infringement claims that may

1 arise in connection with AT&T's use of network elements that AT&T may lease  
2 from SWBT.

3 **Q. WHAT IS SWBT'S POSITION REGARDING THIS ISSUE?**

4 A. For the reasons stated below, SWBT does not believe that it has the obligation  
5 or the right to provide AT&T with the warranties and indemnities that it seeks in  
6 its proposed interconnection agreement language.

7 First of all, SWBT is a provider of unbundled network elements that AT&T may  
8 elect to purchase access to for the purpose of interconnecting with its own  
9 network and to provide telecommunications services to its end-use customers.  
10 SWBT is not a vendor, seller or licensor to AT&T of every individual piece of  
11 equipment, software, systems, or related facilities used in SWBT's network that  
12 may contain third-party intellectual property rights over which SWBT has no  
13 direct control beyond its having obtained the necessary license rights to use  
14 such intellectual property.

15 SWBT's role is to provide AT&T with access to unbundled elements of its  
16 network and to *facilitate* AT&T's ability to obtain any necessary rights to use the  
17 intellectual property of third-parties that may be required to enable AT&T's use of  
18 such network elements. AT&T confuses SWBT's role as a provider of network  
19 services with that of a third-party vendor of the individual components that  
20 comprise SWBT's network. In effect, AT&T would propose that SWBT step into  
21 the shoes of these third-party vendors and act as a sort of super vendor and  
22 assume all the rights and obligations with respect to intellectual property rights  
23 that only these third-party vendors may properly possess.

24 Second, AT&T's approach to this issue would require SWBT to virtually  
25 guarantee that every element of its network and the equipment and services  
26 associated with each network element provided to AT&T are free from all  
27 possible third-party claims of infringement. Since it is impossible for SWBT to  
28 know whether and to what extent such claims might possibly be made against it  
29 or against AT&T, such a requirement would be both impractical and an

1 unreasonable allocation of potential risk to SWBT. As indicated above, it is the  
2 third-party vendor and not SWBT who has both the knowledge and the obligation  
3 to ensure that its intellectual property rights (including those of its own vendors)  
4 are properly obtained and reflected in the appropriate license agreements by  
5 users of its equipment or software. SWBT can only warrant against risks it has  
6 reason to be aware of and over which it has a reasonable degree of control. A  
7 warranty having the scope suggested by AT&T involves risks that SWBT is not in  
8 a position to be fully aware of and would extend to uses that are clearly not  
9 within SWBT's control and may extend to uses beyond those granted to SWBT  
10 by the license from the third-party owner of the intellectual property rights. For  
11 precisely these reasons, express warranties are properly a matter of considered  
12 negotiation between the parties in appreciation of the respective risks they agree  
13 to assume.

14 Third, in the FCC's recent intellectual property order,<sup>1</sup> the FCC recognized that it  
15 did not have jurisdiction to interfere with the intellectual property rights of third-  
16 parties, nor could it require SWBT to unilaterally extend intellectual property  
17 rights to AT&T.<sup>2</sup> Consistent with this recognition, the FCC ruled that any use  
18 restrictions contained in SWBT's license agreements that would limit AT&T's  
19 ability to access and use unbundled network elements that are not co-extensive  
20 with the restrictions on SWBT's use under its license agreements would require  
21 SWBT to exercise its best efforts to modify its license agreements in an effort to  
22 obtain use rights that are co-extensive with SWBT's own rights to use the subject  
23 intellectual property.<sup>3</sup> The FCC order does not require SWBT to blindly warrant  
24 that AT&T may use any intellectual property associated with network elements  
25 and be free from the risk of potential third-party infringement claims. What the

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<sup>1</sup> FCC 00-139, Memorandum Opinion and Order, In the Matter of Petition of MCI for Declaratory Ruling that New Entrants Need Not Obtain Separate License or Right-to-Use Agreements Before Purchasing Unbundled Elements, CC Docket No. 96-98, released April 27, 2000.

<sup>2</sup> *Id.* at para. 15, 19.

<sup>3</sup> *Id.* at para. 9.



1 FCC order does require is a case-by-case review of the intellectual property  
2 licenses that SWBT maintains with third-parties and to have SWBT exert its best  
3 efforts to obtain co-extensive use rights on behalf of AT&T.<sup>4</sup>

4 Finally, an express warranty represents essentially a contractual promise that the  
5 thing warranted is factually true and, therefore, a breach of that promise can give  
6 rise to a separate ground for claiming a breach of contract exposing the party in  
7 breach to legal liability. Any express warranty must therefore be one that can be  
8 offered with full knowledge of the risks involved.

9 For the reasons stated above, including the uncertain nature and extent of the  
10 uses to which AT&T might wish to devote SWBT's network, SWBT cannot  
11 factually represent that all intellectual property residing in SWBT's network is free  
12 from potential third-party claims of infringement and thus providing such a  
13 warranty would be a commercially imprudent thing for SWBT to do.

14 **Q. HOW DOES SWBT PROPOSE TO RESOLVE THIS ISSUE?**

15 A. Consistent with the FCC's intellectual property order, SWBT proposes to resolve  
16 this issue by agreeing to negotiate with AT&T mutually acceptable replacement  
17 terms and conditions that accurately reflect the parties' respective rights and  
18 obligations, including those of the third-party owners of any applicable intellectual  
19 property. Attached to my testimony and marked as Exhibit A is SWBT's most  
20 recently revised indemnification language that has been prepared in response to  
21 the FCC's April 27<sup>th</sup> order.

22 As indicated, SWBT's proposed resolution of this issue is consistent with the  
23 requirements imposed on the parties by the FCC order and reflects a reasonable  
24 and balanced approach to the allocation of the parties' respective risks  
25 associated with the use of any third-party intellectual property rights that are  
26 involved with AT&T's lease from SWBT of unbundled network elements.

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<sup>4</sup> *Id.* at para. 7.

V.

**ISSUE 6 – INTELLECTUAL PROPERTY RIGHTS AND PROTECTIONS**

1 **Q. WHAT IS THE ISSUE REGARDING INTELLECTUAL PROPERTY RIGHTS**  
2 **AND PROTECTIONS?**

3 A. This issue relates to whether SWBT is obligated to provide AT&T with intellectual  
4 property rights and protections where a state commission or other regulatory,  
5 judicial, or legislative body has deemed that SWBT is not so obligated.

6 **Q. WHAT IS SWBT'S POSITION REGARDING THIS ISSUE?**

7 A. As discussed above under Issue No. 5, SWBT does not believe that it has any  
8 obligation imposed upon it by any applicable state commission or other  
9 regulatory, judicial, or legislative body to provide AT&T with the type of blanket  
10 intellectual property protections that it seeks. SWBT also believes that it is  
11 entitled to language that clearly limits its intellectual property rights  
12 responsibilities, as outlined under Issue No. 5, consistent with the FCC's  
13 intellectual property order.

14 SWBT acknowledges its obligations under the FCC's order to use its best efforts  
15 to obtain, for AT&T, co-extensive rights to use intellectual property associated  
16 with its lease from SWBT of unbundled network elements. SWBT's revised  
17 interconnection agreement language reflects this obligation and properly limits  
18 SWBT's intellectual property rights responsibilities in a manner that is consistent  
19 with the FCC's order.

20 **Q. HOW DOES SWBT PROPOSE TO RESOLVE THIS ISSUE?**

21 A. As indicated above, SWBT has proposed revised terms and conditions that  
22 address the intellectual property issue in a manner that is consistent with the  
23 requirements of the FCC order. SWBT is prepared to negotiate in good faith with  
24 AT&T to develop mutually acceptable terms and conditions that are consistent  
25 with the parties' respective legal obligations as reflected in the FCC order.

VI.

**ISSUE 7 – CONVEYANCE OF INTELLECTUAL PROPERTY LICENSES AND  
INDEMNIFICATION OBLIGATIONS**

1 **Q. WHAT IS THE ISSUE REGARDING CONVEYANCE OF INTELLECTUAL**  
2 **PROPERTY LICENSES AND INDEMNIFICATION OBLIGATIONS?**

3 A. There are two issues involved here. The first issue is whether SWBT should be  
4 held to have conveyed third-party intellectual property licenses to AT&T through  
5 the parties' interconnection agreement. The second issue relates to whether  
6 AT&T should be required to indemnify SWBT for any intellectual property  
7 infringement that results from AT&T's use of SWBT's network.

8 **Q. WHAT IS SWBT'S POSITION REGARDING THESE TWO ISSUES?**

9 A. With respect to the question of whether SWBT should be held to have conveyed  
10 third-party intellectual property licenses to AT&T through the parties'  
11 interconnection agreement, SWBT's position is that it has no legal right to  
12 convey any such third-party license rights and therefore any suggestion that it do  
13 so should be rejected.

14 The FCC's intellectual property order recognizes that AT&T's use of any third-  
15 party intellectual property associated with its lease from SWBT of unbundled  
16 network elements must be reflected in either SWBT's existing or any  
17 subsequently modified license agreements with third-parties consistent with  
18 SWBT's best efforts obligations to obtain co-extensive use rights for AT&T under  
19 that order. The FCC's ruling on this issue clearly reflects, and indeed protects,  
20 the independent rights of third-party owners of intellectual property that is  
21 licensed to SWBT for use in its network. AT&T's right to use such intellectual  
22 property must be based upon a license granted to it by the third-party owner of  
23 that intellectual property, either through the best efforts of SWBT on AT&T's  
24 behalf or, to the extent SWBT is unsuccessful, through the efforts of AT&T in  
25 direct negotiations with the third-party.

1 With respect to the second question of whether AT&T should be required to  
2 indemnify SWBT for any intellectual property infringement that results from  
3 AT&T's use of SWBT's network, SWBT's position is that AT&T should be  
4 required to provide SWBT with the requested indemnification.

5 As discussed above under Issue No. 5, the FCC order requires SWBT to  
6 exercise its best efforts to obtain, for AT&T, intellectual property use rights that  
7 are co-extensive with SWBT's own use rights. Implicit in this ruling is the  
8 recognition that AT&T must acknowledge and respect the intellectual property  
9 rights of third-parties and, therefore, obtain any necessary rights to use such  
10 intellectual property in order to avoid the potential risk of a third-party claim of  
11 infringement. While SWBT is obligated under the FCC order, consistent with its  
12 nondiscrimination obligation, to assist AT&T in obtaining such rights, the ultimate  
13 legal obligation to secure the required right to use third-party intellectual property  
14 associated with SWBT's network properly rests with AT&T.

15 Recognizing, therefore, that the ultimate legal obligation to obtain the necessary  
16 right to use third-party intellectual property rests with AT&T and also recognizing  
17 that AT&T's failure to obtain such rights could subject both AT&T and SWBT to  
18 potential claims of intellectual property infringement, it is both reasonable and  
19 commercially appropriate to require AT&T to indemnify SWBT against any such  
20 third-party infringement claims. AT&T's obligation to indemnify SWBT against  
21 any such infringement claims would necessarily apply to uses that were both co-  
22 extensive with the use granted SWBT under its own license agreements as well  
23 as any use by AT&T that is outside the scope of the use permitted under  
24 SWBT's license. This requirement is also consistent with the FCC's order which  
25 requires AT&T to bear sole responsibility for obtaining any necessary right-to-use  
26 licenses directly from the third-party where AT&T's intended use is different from  
27 SWBT's licensed use.<sup>5</sup>

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<sup>5</sup> *Id.* at para. 16.

1 Finally, it is important to recognize that AT&T's obligation to indemnify SWBT  
2 against the possibility of intellectual property infringement is an integral part of  
3 the fact that AT&T is in fact creating its own network. Every company that builds  
4 a network must obtain the necessary warranties and indemnification's from the  
5 vendors who control the third-party intellectual property rights that may be  
6 involved. SWBT must facilitate AT&T's ability to obtain such protections  
7 consistent with its own. AT&T, however, is ultimately responsible for its network  
8 and its configuration and must therefore assume the responsibility to configure it  
9 in such a way as to not exceed the scope of any use rights it obtains.

10 **Q. HOW DOES SWBT PROPOSE TO RESOLVE THESE ISSUES?**

11 A. SWBT proposes to resolve these issues as discussed above.

#### VII.

#### **ISSUE 8 – INCORPORATION OF FCC INTELLECTUAL PROPERTY ORDER INTO THE PARTIES' INTERCONNECTION AGREEMENT**

12 **Q. WHAT IS THE ISSUE REGARDING INCORPORATION OF THE FCC**  
13 **INTELLECTUAL PROPERTY ORDER INTO THE PARTIES'**  
14 **INTERCONNECTION AGREEMENT?**

15 A. This issue relates to how and to what extent should the FCC's intellectual  
16 property order be incorporated into the parties' interconnection agreement.

17 **Q. WHAT IS SWBT'S POSITION REGARDING THIS ISSUE?**

18 A. SWBT believes that the parties' interconnection agreement should reflect the  
19 existence of the FCC's intellectual property order and that the parties' should  
20 spend a reasonable amount of time negotiating the appropriate replacement  
21 terms and conditions to include in their agreement consistent with the parties'  
22 respective obligations under that order. To that end, SWBT has proposed in  
23 Exhibit A revised terms and conditions that both incorporate and reflect the  
24 requirements contained in the FCC's order.

25 **Q. HOW DOES SWBT PROPOSE TO RESOLVE THIS ISSUE?**

26 A. SWBT proposes to resolve this issue as discussed above.

1    **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

2    **A.    Yes, this concludes my testimony.**

**IP CONTRACT LANGUAGE (SWBT PROPOSED)**

- 7.3.2 AT&T acknowledges that its right under this Agreement to Interconnect with SWBT's network and to unbundle and/or combine SWBT's network elements (including combining with AT&T's network elements) may be subject to or limited by Intellectual Property rights (including without limitation, patent, copyright, trade secret, trade mark, service mark, trade name and trade dress rights) and contract rights of third parties.
- 7.3.3 The Parties acknowledge that on April 27, 2000, the FCC released its Memorandum Opinion and Order in CC Docket No. 96-98 (File No. CCBPol. 97-4), *In the Matter of Petition of MCI for Declaratory Ruling*. Absent any stay, reconsideration or appeal, such Order will become effective thirty (30) days following the future publication of such Order in the Federal Register. The Parties further acknowledge and agree that by executing this Agreement, neither Party waives any of its rights, remedies, or arguments with respect to such decision and any remand thereof, including its right to seek legal review or a stay pending appeal of such decision.
- 7.3.3.1 When the Order referenced in Section 7.3.3 (or any reconsideration or appeal therefrom) is effective, SWBT agrees to use its best efforts to obtain for AT&T, under commercially reasonable terms, Intellectual Property rights to each unbundled network element necessary for AT&T to use such unbundled network element in the same manner as SWBT.
- 7.3.3.2 SWBT shall have no obligation to attempt to obtain for AT&T any Intellectual Property right(s) that would permit AT&T to use any unbundled network element in a different manner than used by SWBT.
- 7.3.3.3 When the Order referenced in Section 7.3.3 (or any reconsideration or appeal therefrom) is effective, to the extent not prohibited by a contract with the vendor of the network element sought by AT&T that contains Intellectual Property licenses, SWBT shall reveal to AT&T the name of the vendor, the Intellectual Property rights licensed to SWBT under the vendor contract and the terms of the contract (excluding cost terms). When the Order referenced in Section 7.3.3 (or any reconsideration or appeal therefrom) is effective, SWBT shall, at AT&T's request, contact the vendor to attempt to obtain permission to reveal additional contract details to AT&T.

- 7.3.4 SWBT hereby conveys no licenses to use such Intellectual Property rights and makes no warranties, express or implied, concerning AT&T's (or any third party's) rights with respect to such Intellectual Property rights and contract rights, including whether such rights will be violated by such interconnection or unbundling and/or combining of network elements (including combining with AT&T's network elements) in SWBT's network or AT&T's use of other functions, facilities, products or services furnished under this Agreement. Any licenses or warranties for Intellectual Property rights associated with unbundled network elements are vendor licenses and warranties and are a part of the Intellectual Property rights SWBT agrees in Section 7.3.3.1 to use its best efforts to obtain.
- 7.3.5 SWBT does not and shall not indemnify, defend or hold AT&T harmless, nor be responsible for indemnifying or defending, or holding AT&T harmless, for any Claims or Damages for actual or alleged infringement of any Intellectual Property right or interference with or violation of any contract right that arises out of, is caused by, or relates to AT&T's interconnection with SWBT's network and unbundling and/or combining SWBT's network elements (including combining with AT&T's network elements) or AT&T's use of other functions, facilities, products or services furnished under this Agreement. Any indemnities for Intellectual Property rights associated with unbundled network elements shall be vendor's indemnities and are a part of the Intellectual Property rights SWBT agrees in Section 7.3.3.1 to use its best efforts to obtain.
- 7.3.6 AT&T hereby agrees to release, indemnify and hold SWBT harmless from and against all Damages arising out of, caused by, or relating to any Claim that AT&T's interconnection with SWBT's network, or AT&T's use of SWBT's network elements, or unbundling and/or combining of SWBT's network elements (including combining with AT&T's network elements) or AT&T's use of other functions, facilities, products or services furnished under this Agreement violates or infringes upon any third party's Intellectual Property rights or constitutes a breach of contract rights of any third party. In no event shall SWBT be liable for any actual or consequential damages that AT&T may suffer arising out of any such Claim.
- 7.3.7 All costs associated with the extension of Intellectual Property rights to AT&T pursuant to Section 7.3.3.1, including the cost of the license extension itself and the costs associated with the effort to obtain the license, shall be a part of the cost of providing the unbundled network element to which the Intellectual Property rights relate and apportioned to all requesting carriers using that unbundled network element including SWBT.





IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF OKLAHOMA

**FILED**

JUN 15 2000

ROBERT D. DENTON, CLERK  
U.S. DIST. COURT, WESTERN DIST. OF OKLA.  
BY \_\_\_\_\_, DEPUTY

SOUTHWESTERN BELL TELEPHONE )  
COMPANY, )

Plaintiff, )

v. )

Case No. CIV-97-1507-A

ED APPLE, et al., )

Defendants. )

AT&T COMMUNICATIONS OF THE )  
SOUTHWEST, INC., )

CONSOLIDATED

Plaintiff, )

v. )

Case No. CIV-97-1514-A

SOUTHWESTERN BELL TELEPHONE )  
COMPANY, et al., )

Defendants. )

**SOUTHWESTERN BELL TELEPHONE COMPANY'S  
MOTION TO ALTER OR AMEND JUDGMENT OR, IN THE ALTERNATIVE,  
MOTION FOR A NEW TRIAL AND BRIEF IN SUPPORT**

Pursuant to Federal Rule of Civil Procedure 59(e), Southwestern Bell Telephone Company ("Southwestern Bell") respectfully requests that the Court amend its judgment issued on June 1, 2000 ("Order"). Southwestern Bell files this motion for two reasons. *First*, the Court's Order unnecessarily decides an issue of significant importance -- whether Southwestern Bell must provide access to the intellectual property of third parties *prior* to the time that a competitive local exchange carrier obtains the necessary intellectual property licenses or agreements. The proper resolution of that issue turns on a very recent decision of the Federal Communications Commission ("FCC") that postdates the decision of the Oklahoma Corporation

Commission that is at issue here. In similar circumstances, the Tenth Circuit and many other courts have concluded that it is appropriate to remand to the state agency to allow that agency to apply the new law in the first instance. That course of action is especially appropriate here because the FCC's order gives substantial discretion to state agencies to resolve these issues.

*Second*, the Court's resolution of this issue is not only unnecessary; it is also incorrect. Simply put, the Court's conclusion has no basis in the FCC order or the federal Telecommunications Act of 1996 ("1996 Act"). As discussed below, the FCC's order quite clearly *refuses* to require incumbents to provide the intellectual property of third parties before obtaining the necessary licenses. The Court's Order is therefore in direct conflict with the FCC's order. At the very least, the Court's reading is subject to substantial challenge based on the FCC's analysis. Thus, the better course would be to allow the expert state agency -- the body to which Congress assigned such tasks -- the opportunity to resolve it in the first instance.

For these reasons, Southwestern Bell respectfully requests that the Court vacate that portion of its Order that passes upon the meaning of the FCC's order. Alternatively, Southwestern Bell respectfully requests a new trial with full briefing on the interpretive question. For purposes of this motion, Southwestern Bell takes no issue with the remainder of the Court's Order.

## **BACKGROUND**

1. On April 27, 2000, the FCC released a decision resolving certain intellectual property issues arising under the 1996 Act. *See* Memorandum Opinion and Order, *Petition of MCI for Declaratory Ruling that New Entrants Need Not Obtain Separate License or Right-to-use Agreements Before Purchasing Unbundled Elements*, CC Docket No. 96-98, FCC 00-139 (rel. Apr. 27, 2000) ("*Intellectual Property Order*") (attached to Southwestern Bell Telephone's

Notice to the Court of FCC Decision Regarding Intellectual Property, filed May 9, 2000). In the *Intellectual Property Order*, the FCC concluded that the 1996 Act “requires an incumbent local exchange carrier . . . to use its best efforts to obtain coextensive intellectual property rights” for its competitors from third-party “vendor[s] on terms and conditions that are equal . . . to the terms and conditions under which the incumbent LEC has obtained the[] rights.” *Id.* ¶ 2.

The FCC, however, did *not* “mandate a particular method of satisfying these obligations.” *Id.* ¶ 9. The FCC believed that “through negotiation, third party vendors, incumbent LECs and requesting carriers can best determine how to ensure that an incumbent LEC lawfully provides access to unbundled network elements to requesting carriers without infringing upon the rights of third party vendors.” *Id.* ¶ 9. The FCC emphasized, however, that “nothing in the 1996 Act permits us to nullify patent or other intellectual property rights.” *Id.* ¶ 7; *see also id.* ¶ 15 (“we do not have jurisdiction to alter the intellectual property rights of third-party vendors”). Accordingly, although incumbents must use their best efforts to obtain permission from the third party vendor, incumbents are not under an absolute duty to provide identical licensing terms. *See id.* ¶ 13 and n.39. In other words, because incumbent LECs “cannot unilaterally extend third-party intellectual property rights to competing carriers,” *id.* ¶ 15, incumbent LECs cannot be forced to provide access to the intellectual property of third parties without first reaching an agreement with those third parties. Accordingly, and of particular importance here, *nowhere does the FCC’s order state or even imply that an incumbent’s “best efforts” obligation involves a duty to provide unbundled elements to an entrant before that entrant has secured the necessary intellectual property rights.*

2. Pursuant to the FCC’s holding in the *Intellectual Property Order*, Southwestern Bell filed a Notice with the Court on May 9, 2000, acknowledging that it must use its best efforts

to obtain any necessary licenses or agreements. Southwestern Bell further noted, however, that, to the extent AT&T Communications of the Southwest, Inc. ("AT&T") requests access to intellectual property of third parties *before* the necessary licenses or agreements are obtained, its request is inconsistent with the FCC's *Intellectual Property Order* because it would interfere with the intellectual property interests of the third parties.

AT&T filed a Response to Southwestern Bell's Notice on May 25, 2000 ("Response"). AT&T argued, without any citation or support, that Southwestern Bell has an absolute obligation to provide its competitors access to all features of a network element, including features that may be the intellectual property rights of third parties. Response at 2. Thus, AT&T contemplated that an incumbent LEC must give access to a third party's intellectual property even if the third party has not yet agreed to relinquish it. AT&T did not explain how its view is supported by -- or even consistent with -- the *Intellectual Property Order*.

In its recent order, the Court accepted AT&T's argument. See Order at 2 (stating that Southwestern Bell must "provide access to intellectual property," including presumably the intellectual property of third parties, "prior to the acquisition of any necessary licenses or agreements"). The Court granted AT&T's motion for summary judgment and remanded paragraph 7.3.2 of the Interconnection Agreement to the Oklahoma Corporation Commission in light of the FCC's and the Court's ruling. *Id.*

## **ARGUMENT**

### **THE COURT'S ORDER UNNECESSARILY AND INCORRECTLY DECIDES AN ISSUE OF SUBSTANTIAL IMPORTANCE**

The Court should amend its order so that it omits the language that seems to suggest that Southwestern Bell must provide AT&T with access to network elements before AT&T has

obtained the intellectual property rights that would permit it to use those elements. That result is appropriate for several reasons.

First, as the Tenth Circuit has explained, a court “reviewing an agency decision following an intervening change of policy should remand to permit the agency to decide in the first instance whether it should reframe its order to better effectuate the policies underlying the Act it is charged with administering.” *Presbyterian/St. Luke’s Med. Ctr. v. NLRB*, 653 F.2d 450, 457-58 n.6 (10th Cir. 1981); *see also Anderson v. Shalala*, No. 93-3293, 1994 WL 413301, at \*2 (10th Cir. Aug. 1, 1994), *reported at* 34 F.3d 1076 (table decision) (“remand is appropriate when intervening changes in laws or regulations are applicable to cases pending administratively or pending in federal courts for review of final agency action”). Application of that binding precedent to this case leads directly to the conclusion that the Oklahoma Corporation Commission should be permitted in the first instance to determine the meaning of the FCC’s *Intellectual Property Order* and its relationship to the parties’ interconnection agreement.

Indeed, that has been the result in many analogous cases decided under the 1996 Act. District courts reviewing state commission arbitration decisions have repeatedly remanded to the state commission in light of intervening court and FCC decisions so that the expert state commission could address the issues bearing on the interconnection agreement in the first instance. *See, e.g., BellSouth Telecommunications, Inc. v. MCI Metro Access Transmission Servs., Inc.*, No. 3:99CV97-MU, 1999 U.S. Dist. LEXIS 12783, at \*10 (W.D.N.C. May 20, 1999) (remanding to the North Carolina Utilities Commission in light of the FCC’s declaratory ruling on the jurisdictional status of calls to ISPs “to give the NCUC an opportunity to reexamine its conclusions with the benefit of the recent FCC Ruling”); *US WEST Communications, Inc. v. Jennings*, 46 F. Supp. 2d 1004 (D. Ariz. 1999) (remanding to the Arizona Corporation

Commission for a determination whether must revisit its deaveraging decision in light of the Supreme Court's decision in *AT&T Corp. v. Iowa Utilities Board*, 525 U.S. 366, 119 S. Ct. 721 (1999); *U S WEST Communications, Inc. v. Thoms*, No. 4-97-CV-70082, slip op. at 7 (S.D. Iowa Apr. 19, 1999) (attached at Tab A) (remanding to the Iowa Utilities Board for a determination whether dark fiber must be unbundled in light of the Supreme Court's decision in *Iowa Utilities Board*, and noting that the Board should make "a determination, in the first instance, of whether the provision of dark fiber satisfies the new standard"); *U S WEST Communications, Inc. v. Garvey*, No. 97-2179, slip op. at 21 (D. Minn. Mar. 31, 1999) (attached at Tab B) (remanding to the Minnesota PUC for a determination of the meaning of the interconnection agreement and whether it violates the Act in light of the Supreme Court's decision in *Iowa Utilities Board*).

Those principles are particularly applicable here because both the 1996 Act and the FCC's *Intellectual Property Order* grant considerable authority to state commissions to resolve issues such as this one. The FCC's order does not purport to establish strict rules governing intellectual property issues, nor does it "specify the means by which" incumbents must behave other than to say that they must use their "best efforts." *Intellectual Property Order* ¶ 13. Rather, the FCC stated that the proper course is for the parties to commence negotiations "to ensure that an incumbent LEC lawfully provides access to unbundled network elements to requesting carriers without infringing upon the rights of third party vendors." *Id.* ¶ 9. In cases where those negotiations do not result in an agreement applying the general language of the *Intellectual Property Order* to a specific circumstance, it is the Oklahoma Corporation Commission and other state commissions that are vested with the authority to arbitrate any disputes that arise in the course of those negotiations. *See* 47 U.S.C. § 252(b)-(d). It is only after the Oklahoma Corporation Commission has rendered its determination that the district court is

authorized to conduct its review. See 47 U.S.C. § 252(e)(6); *U S WEST Communications, Inc. v. Thoms*, slip op. at 7 (holding that 47 U.S.C. § 252(e)(6) “establish[es] that it is this court’s duty to review determinations made by state commissions, not to make such determinations in the first instance”).

For these reasons alone, it would be appropriate for the Court to delete the unnecessary language from its decision. In this instance, amending the Court’s Order is especially important because, as written, the Order accepts an argument that conflicts with the *Intellectual Property Order* and the intellectual property interests of third parties.

As noted, the Court’s Order seems to suggest that Southwestern Bell must provide access to the third party’s intellectual property even *before* Southwestern Bell has obtained the third party’s consent. See Order at 2. That determination cannot be reconciled with the FCC’s decision or with intellectual property law generally. In its *Intellectual Property Order*, the FCC took great pains to emphasize that it was not infringing upon the property rights of third parties and that incumbent LECs could not unilaterally determine whether to give a competitor access to a third party’s intellectual property without first obtaining that third party’s consent. Indeed, that is why the FCC imposed an obligation upon incumbents to use their “best efforts” to obtain relevant licenses and agreements, *not* an absolute duty to provide access to competitors even if the necessary licenses and agreements were not yet obtained. As the FCC noted, “intellectual property rights are among the most valuable assets” companies own. *Intellectual Property Order* ¶ 19. For this reason, the FCC could not require an incumbent to give competitors access to the intellectual property of others before obtaining the consent of the intellectual property owner. Instead, an incumbent could be asked only to use its best efforts to obtain that consent.



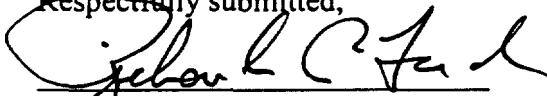
Southwestern Bell therefore believes that the Court's decision on the merits was in error. At the very least, however, the conclusion adopted by the Court is subject to substantial dispute, and the Court should have therefore allowed the expert state commission to pass judgment in the first instance instead of preempting such a determination.

Accordingly, Southwestern Bell respectfully requests that this Court vacate that portion of its Order that attempts to decide whether an incumbent LEC must provide competitors access to the intellectual property of a third party before obtaining the permission of the third party and remand this case to the Oklahoma Corporation Commission in light of the FCC's decision in the *Intellectual Property Order*. Alternatively, if the Court wishes to interpret the meaning of the FCC's order at the present time, Southwestern Bell respectfully requests that the Court vacate its Order and grant a new trial with briefing on the meaning and scope of an incumbent's obligations under the *Intellectual Property Order* before it issues a definitive interpretation.

### CONCLUSION

For the foregoing reasons, Southwestern Bell respectfully requests that the Court grant its motion to alter or amend the judgment or, in the alternative, its motion for a new trial.

Respectfully submitted,

  
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